

**EFFECTIVE STRATEGIES FOR FEDERAL FACILITIES ASSET
MANAGEMENT**

Statement of

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before the

Subcommittee on Economic Development, Public Buildings, and Emergency
Management
Committee on Transportation and Infrastructure
U.S. House of Representatives

Hearing titled Capital Assets Crisis: Maintaining Federal Real Estate with a Dwindling
Federal Building Fund

March 24, 2010
2:00 p.m.

Good morning, Madam Chairman and members of the Committee:

My name is David J. Nash and I am the president of Dave Nash and Associates, LLC, a firm that provides project and program management services throughout the world's emerging markets for bioenergy, energy and large infrastructure projects. I've been involved with buildings and infrastructure for more than 40 years and have managed multi-billion dollar physical asset programs, including the U.S. Navy's shore installations worldwide, and the reconstruction of Iraq's infrastructure.

I am here today as a member of the National Academy of Engineering and the chair of the National Research Council's Board on Infrastructure and the Constructed Environment. The Research Council is the operating arm of the National Academy of Sciences, National Academy of Engineering, and the Institute of Medicine of the National Academies, chartered by Congress in 1863 to advise the government on matters of science and technology.

In 2004, I was the vice chair of the National Research Council's Committee on Business Strategies for Public Capital Investment. The committee's task was to develop guidelines for making better decisions about investments in the construction, maintenance, renewal, replacement, and decommissioning of federal facilities based on best practices from private-sector organizations¹.

The committee recognized at the start that there are inherent differences in the missions, goals, and operating environments of private-sector organizations and those of the federal government.² Nonetheless, the committee identified 10 policies and principles used by best-practice private-sector organizations that could be adapted to the federal government and could result in more effective and efficient management of federal facilities. Among these are life-cycle costing, allowing greater use of alternative approaches for acquiring facilities, determining when to own and when to lease facilities, and disposal of excess facilities. However, the committee also found that current federal budget processes and procedures provide few, if any, incentives for federal agencies to use more innovative and more cost-effective management practices.

My main message here today is that although we do have a crisis in federal capital assets, we also have a tremendous opportunity to change how we invest in federal facilities so that we can operate them more cost effectively and more sustainably: Change is both necessary and possible.

Issues Related to Federal Facilities Investment and Management

As the Subcommittee on Economic Development, Public Buildings, and Emergency Management has recognized, effective management of and investment in federal facilities is a critical issue. In addition to the General Services Administration, more than 30 other federal agencies are responsible for investing in, operating, and maintaining facilities.

However, they have insufficient funds to do so effectively. Combined, these agencies own more than 400,000 facilities worldwide, including embassies, defense and space facilities, office buildings, hospitals, museums, laboratories, and housing.³

Facilities such as the Capitol building and the White House are symbols of our nation at home and abroad. Most federal facilities have been acquired to enable government agencies to meet their missions, to deliver programs, products, and services to the American public. Investments in federal buildings and infrastructure also help to meet other public policy goals for job creation, energy efficiency, greenhouse gas reduction, public transportation, urban revitalization, and historic preservation.⁴

Today, half of all federal buildings are at least 50 years old and many are in deteriorating condition. Many were originally built to serve functions or missions that have changed over time. Thus, many departments and agencies have excess, underutilized, and obsolete facilities that are no longer aligned with their current missions and programs.

Nonetheless, obsolete and excess buildings still require some level of investment to keep them in an operable condition.

Lack of sufficient funding for the maintenance and repair of federal buildings is a long-standing issue and today, many federal agencies are reporting billions of dollars in deferred maintenance and repair.⁵ However, lack of funding is not the only issue preventing effective management of federal capital assets.

Life-cycle Costing

Best practice private sector firms consider facilities as strategic assets and as mission enablers. They analyze the life-cycle costs of facilities up-front. That is, they consider not only how much it will cost to design and build a new facility but how much it will cost to operate, maintain, repair, and renovate that facility over the 20 or more years it will be used. Private sector organizations also evaluate how much it will cost to staff and equip a building, including the life-cycle costs of the computers and furniture that will be needed. Finally, they evaluate how they are going to sell, or otherwise walk away from a building when it is no longer needed.⁶ Using life-cycle costing and developing an exit strategy makes the total costs of a proposal transparent. It allows senior executives to understand the total commitment of resources that will be involved in acquiring a new facility, identifies the tradeoffs, and identifies the short and long-term consequences for the entire organization.

In the federal government, policies and directives to use life-cycle costing have been issued and federal agencies do conduct such analyses for significant new facilities. However, the *budget* process is structured to consider the design and construction costs of a facility separate from its operating, maintenance, repair, and renewal costs. While a great deal of scrutiny may be given to a request to build a new facility, design and construction costs are typically only 5 to 10 percent of the life-cycle costs.⁷ The costs of operating, maintaining, and renovating that facility for 20 or more years are not separated

out and are not scrutinized. The result is that when federal agencies acquire new buildings the total resource commitment is not transparent to decision-makers or the public. Considering the total life-cycle cost of a facility in the budget process would make the total cost of ownership more transparent, and could change how the federal government determines what to build, to own, or to lease.

The National Research Council (NRC) has recommended that each federal department and agency should develop and use a business case analysis for all significant facilities investment proposals. The intent is to make clear the underlying assumptions, the alternatives considered, the full range of costs and benefits, and potential consequences for the organization and its missions.⁸ Further, the NRC has recommended that agencies should use life-cycle costing for all significant facilities investment decisions to better inform decision makers about the full costs of a proposed investment.⁹ And that for every major facility proposal, agencies should include the exit strategy and costs for disposing of a building.¹⁰ In doing so, decision makers and the public would have greater insight into the total commitment of resources that will be required over several decades, not just the up-front costs. These types of analyses would also help federal executives identify the potential long term consequences for their agency, help to identify ways to mitigate the consequences, and help to reduce life-cycle costs.

The Decision to Own or Lease Facilities

Best-practice, private-sector organizations also employ life-cycle costing for decisions about whether to own or lease facilities. Other factors include the level of control required and the planning horizon for the business functional requirement, which may or may not be the same as the life of the facility. Large private-sector corporations typically own those facilities that are most important to their business success and lease those that are less critical or for which demand may change more rapidly.¹¹

Ownership entails a significant up-front investment and on-going operations and maintenance costs. It also allows the owner to exert maximum control over a facility's condition, functionality, and operations.¹² By choosing ownership, a private-sector organization also accepts the risk that if its business requirements change, it can dispose of the facility without a substantial loss.

When a private-sector organization decides to lease space, it cedes some control to the lessor. However, it also avoids the high up-front investment for design and construction, takes on less risk, and can more readily adapt to a changing market.

For federal agencies, the own versus lease decision is not as clear cut. Significant facilities investments are primarily funded from the annual budget. Departments or agencies must receive authorization from Congress for funding to cover the full, up-front (design and construction or purchase) costs in one fiscal year budget request.¹³ This practice is reinforced by the budget "scorekeeping" rules enacted under the Budget Enforcement Act of 1990. These practices are intended to provide transparency to decision makers and the public, a laudable goal.

In actuality, full transparency is not achieved because only the first costs, not the life-cycle costs are disclosed. In addition, these practices can lead to decision making by agencies that may lower costs in the short term, but may result in higher costs to the public over the long term. For example, full up-front funding for a major facility creates a significant “spike” in an agency’s budget request that must be offset by cuts in other program areas. To lessen the impact of the “spike”, agencies may seek to drive down the first costs of a project even if it will eventually increase the total life-cycle costs.¹⁴

The requirement for full up-front funding also provides an incentive to lease space because the initial cost is much lower. The actual cost over 30 years or more is not transparent and could, in actuality, be greater than the cost of owning a facility. One other consequence of full up-front funding is that agencies may instead choose to continue using old and obsolete facilities in order to hold down short-term costs.¹⁵

The National Research Council has recommended that each federal department and agency should base its decisions to own or lease facilities on a clearly stated rationale linked to support of the organizational mission, the level of control desired, and on the planning horizon for the function.¹⁶

Allowing Greater Use of Alternative Approaches for Acquiring Facilities

Private-sector organizations can finance, lease, or otherwise acquire facilities in various ways. They may borrow money from a bank or other lending institution, use their own money, use third-party or equity arrangements, alliances with other firms, joint ventures, sale-and-leaseback, and public-private partnerships. All involve varying levels of risk and of debt.

Federal agencies are more restricted in how they fund facilities. Most investments in construction, operations, and maintenance are funded from the annual budget. Individual departments and agencies may not borrow funds or otherwise incur debt.

However, a number of alternative approaches for acquiring, maintaining, or renovating facilities are being used by federal departments and agencies, on a case-by-case basis under agency-specific legislation.¹⁷ For instance, the Department of Veterans Affairs, the Department of Defense, and NASA have legislative authority to use enhanced use leasing or public-private partnerships. Under these arrangements, a private sector or other public entity leases underutilized federal property in exchange for renovating existing federal facilities or building new facilities that eventually become the property of the federal government.¹⁸ Out-leasing arrangements have been used by the GSA and the Coast Guard for some underutilized or historic properties. In these instances, the federal agency leases all or a portion of a facility to a private-sector or not-for-profit organization, which then assumes the maintenance and operating costs of the facility for the term of the lease.¹⁹ In contrast, sale-and-leaseback arrangements, which are routinely used by the private sector, offer few if any incentives for a federal agency unless it can retain the

proceeds of the sale and use them for some purpose or benefit not funded through the annual budget.²⁰

Any alternative approach has advantages and disadvantages for particular types of organizations and types of facilities. All require effective management, agreed-upon performance measures, feedback procedures, and well-trained staff. Allowing the use of alternative approaches on a government-wide basis does raise concerns about the transparency of funding relationships and concerns about whether the approaches sufficiently account for the perspectives of state and local governments and constituencies.²¹

Recognizing such concerns the NRC has nonetheless recommended that, in order to leverage funding, Congress and the administration should encourage and allow more widespread use of alternative approaches for acquiring, operating, and maintaining facilities. It also recommended using pilot programs to test the effectiveness of various approaches and to evaluate their outcomes from national, state, and local perspectives.²²

Excess Facilities

One of the objectives of effective facilities asset management is to align an organization's facilities with its missions and operating objectives. Private-sector organizations have a direct incentive to dispose of unneeded facilities as soon as possible because they are a drain on resources and are readily identifiable on their balance sheets. They dispose of excess facilities through sales, nonrenewal or breaking of leases, or demolition to free up resources that can be used for other requirements.²³

The same is not true of the federal government, where the number of both owned and leased facilities has increased over time in response to new requirements, changing demographics, and other factors. Some of these facilities are now obsolete, underutilized, or no longer needed by federal agencies because their missions have changed. Potentially, significant amounts of money could be saved over the long term if greater emphasis was placed on demolishing obsolete facilities or divesting the government of unneeded but still viable properties.²⁴

Under current procedures, however, agencies have few incentives, and significant disincentives to dispose of excess facilities. Demolition, like maintenance and repair is typically funded from the operations budget in most agencies, forcing program managers to choose between demolishing an unused facility or repairing one that is occupied. Transferring the title of a facility to a non-federal entity brings with it the responsibility to meet environmental and other regulations, which may cost more than retaining the property. Title transfer also is governed by myriad regulations, policies, and mandates, which require a significant investment of staff time to navigate, time that can be used for other programs.²⁵

When agencies have been able to dispose of excess properties, significant incentives have been in place to do so. For instance, legislation was enacted several years ago that allowed the U.S. State Department to sell some of its excess properties at fair market value and to retain some of the proceeds for investment in mission-critical facilities.²⁶ The base realignment and closure process, of course, is a more extraordinary effort to divest the government of excess facilities.²⁷

On the issue of excess federal facilities, the National Research Council has recommended that long-term requirements for maintenance and repair expenditures should be managed by reducing the size of the federal facilities portfolio²⁸. It has also recommended that Congress and the administration lead an effort to streamline government-wide policies, regulations and processes related to facilities disposal, and to consider implementing more extraordinary efforts where agencies have many more facilities than are needed for their mission.²⁹

This concludes my remarks. Thank you for the opportunity to testify today. I would be pleased to address any questions the subcommittee may have.

National Research Council Committee Reports. Available at <http://www.nap.edu/>

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Endnotes

¹ Investments in Federal Facilities, Asset Management Strategies for the 21st Century. 2004. National Research Council. P. x.

² Ibid. p. x.

³ Ibid. p. 1.

⁴ Ibid. p. 1.

⁵ Stewardship of Federal Facilities: A Proactive Strategy for the Nation's Public Assets. 1998. National Research Council. P. 14.

⁶ Investments in Federal Facilities: Asset Management Strategies for the 21st Century. 2004. National Research Council. P. 3.

⁷ Ibid. p. 27.

⁸ Ibid. pp. 6-7.

⁹ Ibid. p. 7.

¹⁰ Ibid. p. 8.

¹¹ Ibid. p. 49.

¹² Ibid. p. 48.

¹³ Ibid. p. 92.

¹⁴ Ibid. p. 77.

¹⁵ Ibid. pp. 77-78.

¹⁶ Ibid. p. 9.

¹⁷ Ibid. p. 76.

¹⁸ Ibid. pp. 79-80,

¹⁹ Ibid. p. 86.

²⁰ Ibid. p. 85.

²¹ Ibid. p. 79.

²² Ibid. pp. 10-11.

²³ Ibid. p. 97.

²⁴ Ibid. p. 97.

²⁵ Ibid. p. 98.

²⁶ Ibid. p. 98.

²⁷ Ibid. p. 99.

²⁸ Stewardship of Federal Facilities: A Proactive Strategy for the Nation's Public Assets. 1998. National Research Council. P. 7.

²⁹ Investments in Federal Facilities: Asset Management Strategies for the 21st Century. 2004. p. 100.